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THE RELEVANCE OF "ZWEI PFADFINDER"

While double-entry as a method was rather fully developed at the time of Luca Paciolo (1494) its underlying concepts were less well understood and explained for some time. Early teachers were more concerned with the mechanics of debits and credits than with the underlying *theory of accounts* which could explain the economic rationale of the system. Even after such a theory had begun to develop, it was concerned more with the nature and meaning of individual accounts and their classification than with the overall significance and meaning of financial reports which could be drawn therefrom. Until the last century, therefore, a theory of valuation which must essentially rest upon an established theory of accounts, could not be adequately developed. All of this suggests the importance of establishing an understanding as to when and how a *theory of accounts* emerged.

Zweikonten Theorie

The article by Hatfield deals with one rather peculiar phase in the development of the theory of accounts, namely the "*Zweikonten-Theorie*" or theory of two account series which was prominent in Germany and Switzerland in the middle and later part of the nineteenth century. This theory was spearheaded by Augspurg and Kurtzbauer and, around the turn of the century more fully developed by Hugli and Schar. It is Hatfield's contention that two American writers, Thomas Jones and B. F. Foster preceded Augspurg and Kurtzbauer in the discovery of this *theory of accounts*.

The substance of this theory is the classification of all accounts into two main categories: on one hand, those representing the substance of the business investment (*Vermögens-Bestandteile*)—such as the various asset and liability accounts; on the other hand, those

representing the results of the investment (*Reinvermoege*) and (*Erfolgskonten*) such as the capital, revenue and expense accounts.

At first glance, such a theory would seem to provide the foundation for our modern proprietary theory of accounts and the accounting equation which was developed by Cronhelm and others during the nineteenth century and which, in our modern teaching approach to double-entry bookkeeping, have replaced the account personification approach used for so long and so extensively in the past. On the other hand, this theory of a residual net worth is so closely allied to the double-entry idea itself that it is reasonable to assume that it was intuitively understood by those who developed the double-entry procedure originally. The difference between the theory of the two account series and the somewhat older personalistic account theory is that the advocates of the personalistic theory viewed the account or accounts of the proprietor as claimants against the enterprise not as the "other side of the same coin."

Van Gezel's Dichotomy

Early traces of the theory of the two account series are found among authors of the 16th century Flemish school. [Littleton, p. 202; Chatfield, p. 55]. Simon Stevin is regarded by 19th century authors to have been the precursor of the theory [ten Have, p. 64]. Yamey notes, however, that it was Van Gezel (1681) who should receive the credit for devising the first fully satisfactory account classification under this theory, some eighty years after Stevin [Yamey, p. 155]. Van Gezel employed his own terminology and his writing was sometimes difficult to follow, therefore his book was not well known and is not believed to have reached a second edition, a factor somewhat unusual for books of that era. The title and specifics of his work lead us to additional insights as to the purposes he sought to fulfill:

Short treatise of the contemplative Instruction of Commercial Accounting, useful to all those who like the true Knowledge of this Art and are well-disposed to understand it more thoroughly than it was ever described or taught to this day, . . . [ten Have, p. 70]

Yamey acknowledges Van Gezel's dichotomy as follows:

"At the most general level of classification, he wrote, there are only two classes of accounts: "own" accounts (*eigene*) and "contrary" accounts (*tegengestelde*). An own

account is one "whose debit means the merchant's [owner's] debit, and whose credit means the merchant's credit." The contrary accounts include accounts for other persons, for cash and for goods. A contrary account is one "whose debit means the merchant's credit, and whose credit means the merchant's debit." This somewhat cryptic explanation is elucidated immediately. The own accounts are kept so that the owner can know how big his initial capital (estate) is, and why and by how much it increases or decreases in a period of trading. The contrary accounts, on the other hand, are necessary to show how the owner "stands with each person, and money, and goods, with whom or which he trades." Together the own and the contrary accounts are also necessary "to provide the proof of each other in the making of the balance account." The rules for debiting and crediting ledger accounts are then derived. The author distinguishes three classes of transactions or events (*posten*): advantageous (*voordeelig*), disadvantageous (*nadeelig*), and indifferent (*middel-matig*). Transactions of the first class are those which (taken by themselves) increase the owner's capital; the second are those which decrease it; and the third are those which leave it unchanged. It follows that for an advantageous transaction an own account must be credited and a contrary account debited; that the converse applies for a disadvantageous transaction; and that an indifferent transaction affects contrary accounts alone.

In his rules for making debits and credits, van Gezel placed the emphasis on the nature of the accounts and not, as was customary, on the type of the transaction. (Yamey, pp. 155-6)"

Yamey further indicates that earlier works by moschetti (Venice, 1610) suggest a familiarity with Stevin's writings and correspond to Van Gezel's treatment, apparently having derived the approach independently. Zambelli (1671), he notes, also had a bi-partite classification but arrived at it by a different route than that used by the Flemish writers.

Controversy

The issue of the first discovery of a bi-partite theory of accounts has lost much of its appeal because of the corporate entity theory

and newer international developments. Yet we stand to benefit in learning more about the origins of this theory in the sense we acknowledge that all knowledge is the product of many ages- and when one link in the chain of development is lost it becomes irreplaceable.

Resolution of the conflicts over the origins of this theory is likely to involve understandings and misunderstandings of a host of vague notions advanced by early writers which, when given the current level of knowledge, appear to resemble forerunners of our modern theory of accounts. Historians must take care to distinguish between a concept's initial *function* and its *dialectic* relation to the process of accounting development. Undoubtedly scholars will continue to discover evidence which hints of earlier uses of a bipartite theory of accounts and further controversy will ensue. A comparison could be drawn between this and the more widely known controversy concerning when the idea of the double-entry form first originated. Perhaps neither controversy will ever be completely settled—a prospect which holds a particular appeal to the historian and the cynic.

Contemporary Relevance

From about 1894 to 1925, Frese notes that there existed in German accounting and business periodicals (notably *Zeitschrift für Buchhaltung* and *Zeitschrift für Handelswissenschaft und Handelspraxis*) a series of heated literary debates as to the merits of fundamental theories of accounts related to double entry. [Frese, *passim*]. Hatfield's article enters into the thick of this debate in a timely and authoritative manner to establish the "theoretical credentials" of American writers in topics thought to be previously reserved for the advanced accounting intellectual communities of Europe. We now know of the contributions of Hautschul (1840) which are contemporary to Jones' views, and that we have evidence that earlier European writers including Crippa (1838) [Gomberg, p. 48], Cronhelm (1818), Hostcraft (1735), and Malcolm (1718) had related the essence of proprietary theory [Littleton, p. 201; Chatfield, p. 221] much earlier. The point remains that although Hatfield's research was supplanted, he gained the attention of the theoretical community, and the practitioner as well (recall that the *Journal of Accountancy* commented on the article) on a matter related to the maturity of American theory *per se*. This is the relevance of "*Zwei Pfadfinder*" to historians at this point of our study. Hatfield's article suggests a milestone as to the maturity of our scholars and writers

—in that by the mid nineteenth century American writers had developed proprietary theory comparably with theoreticians of other leading countries. By the twentieth century American theorists were in a position to be regarded by other nations as capable of understanding and contributing to the overall theory of accounting.

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